

MaxOut Savings Report

With Ted Geoca

Saturday 11:00AM on KNTH 1070AM

MaxOut Savings Advisors, LLC

01/07/2011

SAVE AGGRESSIVELY AND INVEST CONSERVATIVELY!!!

2011 Outlook

Spending Cuts

What Happens with Higher Rates?

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New Years Resolution: Saving!

It is the start of the New Year and now is the time to make those New Years resolutions. Do you know your retirement savings rate? Our goal on the MaxOut Savings Show is to have everyone saving a minimum of 10% of their income plus the company match. If you are behind in your savings plan or have lost money in the Debt Crisis, then your savings rate should be over 10%; move that rate to 15% if you can. Now is the time to start the New Year out right by increasing your savings in your retirement plan. Speak to your HR person about boosting your savings rate higher. Remember the motto of the MaxOut Savings Show, "Save Aggressively and Invest Conservatively".

The year 2010 was remarkable in the United States in respect to how little was achieved. It was the year of "kicking the can down the road". Throughout the world many countries struggled to correct their debt problems and create jobs. They cut government spending, increased savings, set up infrastructure programs and worked toward sound economic policies. The exception was the United States, the land of massive deficit spending and QE2. The upcoming year will mark the beginning of the offensive to control government spending and restructure our debt-based economy.

Return of the Good Guys

2011 marks the return of the "good guys", the Tea Party Republicans that will fight big government and runaway spending. The Republicans picked up 63 house seats, 6 senate seats and huge wins in the state houses and governorships in the last election. They are now all being sworn into office. For 2011 in Congress, we are not in the gridlock camp. We expect more to get done than expected because of the magnitude of our problems.

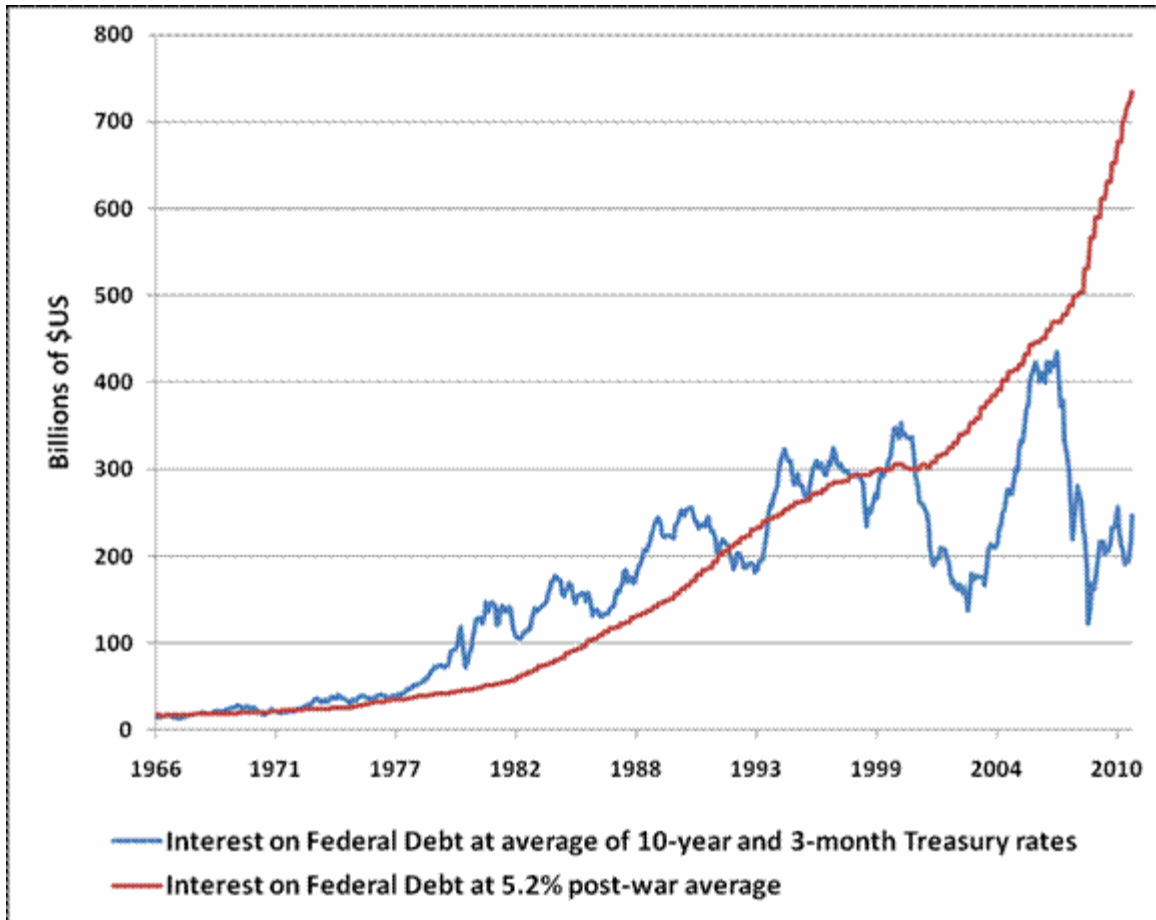
We believe the Tea Party Republicans and many Democrats are more populist in nature on many issues than is generally recognized. This will allow them to come together on issues such as trade, jobs, spending cuts and other issues. This will make Congress more susceptible to trade protectionism to protect jobs.

Momentum Gathers to Cut Spending

We believe that the debt ceiling will be the lever to cut spending in 2011. The present debt ceiling is set at \$14.3 trillion; our current deficit is about \$13.9 trillion. Analysts estimate that we should hit that ceiling in March of this year. If we are ever going to cut spending, the time to do it is when we reach that ceiling and the Tea Party knows this. For 2011, the budget deficit is projected to be over \$1.2 trillion. It has been extraordinarily difficult to cut any government spending, particularly at the Federal level. The big win by the Tea Party and the Republicans was a mandate to reduce runaway government spending. This has been reinforced by the anger at the deals cut in the lame duck session of Congress this past December. We believe the Tea Party Congressmen and Congresswomen will force substantial cuts in spending. The American people on both sides of the aisle are increasingly viewing out of control spending as a threat to the country. This has manifested itself in the recent writings of PIMCO's "Investment Outlook" by Bill Gross entitled "Off With Our Heads!", which details the true costs of out of control government spending. As one of the largest bond fund managers in the world, he has real reason for concern; as do we all! Among his concerns are declining real American wages, a lower dollar, unmanageable debt levels and the eventual loss of the United States' AAA credit rating if nothing is done.

What Would Happen If Rates Went Up?

John Hussman, manager of the Hussman Funds, put together a great chart showing what our interest expense would be if we were financing it with the average post-war interest rate of 5.25%. For 2010, our interest expense would explode from \$250 billion to over \$700 billion if we used the post war average interest rate instead of using artificially low present rates. To put it another way, if interest rates increase to match the average of the last 60, years our debt payments could rise nearly \$500 billion per year. The Federal Reserve has set policy to keep interest rates artificially low. It also shows that if interest rates were to rise and we got a flat yield curve (long and short term rates are the same), our budget deficits could spin out of control. *We anticipate the short term rates to remain at a low level for longer than expected because of this simple fact.* The movement in longer term rates will happen sooner.



<http://www.hussmanfunds.com/wmc/wmc101220.htm>

John Hussman

The \$1.2 trillion deficit, the third trillion dollar deficit in the last three years, will continue to drive the US dollar lower over the next couple of years. This out of control spending plus a failing QE2 (quantitative easing) policy from the Federal Reserve is resulting in a loss of confidence in the dollar that will only get worse in the future. For 2011, we expect the US dollar to move lower after initial strength.

Municipal Cutbacks

We are seeing spending cut battles breaking out in most state and local governments. Throughout the country budget deficits are out of control at the municipal level. In 2010 this problem was “kicked down the road” by rainy day funds and the huge stimulus package that hid the problem behind Federal funds. That money is now gone and states are being forced to make big cuts in spending and employment. This problem has been made worse by golden benefit packages negotiated by municipal unions. We expect to see some municipal bankruptcies and large spending cuts at all levels of state and municipal government. One of the chief goals of the Obama Administration for 2011 will be to try to get bailout money to protect the states of Illinois and California. There is little support for another bailout, but they will try to package it with a tradeoff of some type just as they were able to sneak a stimulus program through Congress in the lame

duck session in the form of a 2% Social Security payroll deduction. Expect record state and local layoffs and some bankruptcies for 2011.

Protectionism

We believe trade protectionism will be a major issue for 2011. All over the world countries are scrambling to protect and create jobs. As we have written about in past reports, the world knows the dangers of tariffs, which will limit their use. Instead, this protectionism will take the form of currency depreciation and regulatory hurdles. This is why we have seen countries all over the world scrambling to depreciate their currencies because if their currency appreciates too much, they will lose their export advantages and jobs will be lost. We believe these currency wars will get worse for 2011. After initial strength, we expect the US dollar to resume its decline later in the year.

Europe

Europe will continue its slow growth as spending cuts and the debt crisis in Ireland, Greece, Portugal and Spain continue to be a drag on their economies. We expect more problems to come out of Spain as their real estate problems become more pronounced. Spain, of all the countries in the world, has been the most successful at sweeping their real estate problems under the rug. In the end the problems will come out. We expect several of these countries to restructure their debt over the next couple of years.

China Slowdown

As can be seen from the chart below, China's Shanghai Index has not made a new high for the year, unlike the US stock markets. China now has a major inflation problem and has been raising rates to try to control it. The inflation is being driven by an artificially low yuan, China's currency. They are being forced to flood their economic system with yuan to keep it down against the US dollar. This is inflationary. Inflation is also being driven to a lesser extent by a massive building boom and real estate speculation. Commodity prices are rising rapidly and many Chinese cannot afford basic necessities. Increasing food prices have become a particular problem in China. The inflation situation in China is somewhat analogous to the United States in the 1970s. They are raising interest rates in China to try to slow down inflation, which keeps moving higher. At the same time they are battling a real estate speculation bubble and over-building in the office and apartment real estate markets. At the present time, 22 of the 50 large skyscrapers under construction in the world are being built in China. We believe China's boom will not end smoothly. They will be forced to raise interest rates higher than anticipated. This will lead to a slowdown in the economy and a material correction in commodity prices. As this happens, the yuan should rise against the dollar but it also should a slowdown in worldwide growth. The bottom line is that China is the driver for commodity prices. If China's economy slows down, commodity prices will consequently fall. The inflation and uncertainty in China is fueling large purchases of gold by the Chinese people, which is bullish for gold.



Lower lows in China's stock market

Cyber Security

The other day we had Congressman Michael McCaul of the 10th Congressional District of Texas discussing the dangers of cyber security. We believe we are at a high risk of a cyber security attack in the United States that could do major damage to the economy. Although most companies have cyber protection on their computer systems, recent attacks have shown that seemingly well protected systems can be brought down. Recently during the arrest of Wikileaks' founder Julian Assange, a group of people, including some school age kids, almost shut down MasterCard and Visa's internet operations. In Iran, a cyber attack has crippled its nuclear program and set it back several years—something diplomatic pressure and sanctions were unable to do. If the internet is shut down or a company's computers are infected, most companies would be unable to conduct business. A major internet attack that is well executed could halt business in parts of the United States for several days. This is particularly true as we move more computing capability to the "cloud". Another form of cyber attack could require replacing large numbers of computers that would have to be built in China. This is another reason that we should work to bring computer manufacturing capacity back to the US. The good news is that the Federal Government has just broken ground on a new \$1.5 billion cyber security center in Utah. We do not believe these catastrophic events will occur, but concern over the potential threats will make cyber security and cyber terrorism a major theme for 2011.

Gold

We expect gold to have a meaningful correction in 2011. Overall we continue to like the metal and believe it will hit new highs. China has a huge inflation problem and that is good for gold. Chinese citizens are purchasing huge amounts of gold. China recently announced that for the first ten months of 2010, China imported 209.7 metric tons of gold, which is five times the pace of gold purchases for 2009. In the United States we are seeing continued buying of gold from investors worried about the Federal Reserve debasing the currency and runaway government deficit spending. As we can see from the chart of the gold ETF SPDR Gold Trust (GLD) below, gold prices surged to new highs as word of the Federal Reserve's QE2 program began to leak out in August of this year. Longer term, gold will move higher as the dollar selloff and deficit spending by the Obama Administration continues. Over the next 12-18 months our target for gold is \$1750.



Outlook

Going into 2011 we believe that many investors have become complacent. We expect the economy to recover gradually over time from the collapse of the debt bubble. In the bond sector we would avoid long term US bonds as we believe that the bond market rally of the last 25 years ended when the Federal Reserve began QE2 in the fall of 2010. For the reasons discussed above we would avoid municipal bonds in problem states. Short to mid term corporate and municipal bonds of good quality should be a more prudent course in this market. If the dollar continues its decline, foreign non-dollar bonds should

outperform. With the specter of inflation on the horizon, convertible bonds are looking increasingly attractive. Another attractive sector as rates and inflation increases would be floating rate bonds.

The stock market is due for a correction some time in the first quarter of the year. We believe it is fully pricing in a recovery and vulnerable to higher interest rates. We would continue to maintain higher than normal levels of cash. The cash will give you buying power on market corrections and protect against sudden stock market shocks in these uncertain times. Sectors we like are healthcare, gold, energy, technology, and utilities. Some time this year we will see a substantial correction in commodities. We are not as bullish as some on the sector because of this. We continue to like the large cap multinational corporations that are profiting from the worldwide growth of the middle class. Many of these companies are selling at discounts to the market and pay good dividends.

In the end, for 2011 we believe your savings rate will have one of the biggest impacts on your retirement over the long term horizon.

I also wanted to take this time to wish everyone a Happy and Prosperous New Year!

Do you have an account at Fidelity?

Do you already have an account at Fidelity Investments? The MaxOut Savings Advisors Team can actively manage the assets for you at Fidelity. We will make the investment decisions for you and you can monitor your account from Fidelity's website. We use the same value based investment strategies we talk about on the MaxOut Savings Show. In most cases, you can sign a simple form to add us as the advisor on your account and we can use your existing Fidelity account number.

Considering an IRA Rollover?

If you are retiring soon or considering an IRA rollover, let the MaxOut Savings Advisors Team handle your IRA rollover. We can help you take advantage of the NUA tax break if you have low cost basis stock in your company plan. We will sit down with you, discuss your financial situation and needs, and develop a plan tailored specifically for you. We will show you how we manage our accounts using our value analysis strategy to grow the investments and reduce risk.

MaxOut Savings Advisors: Actively Managing Risk

In these volatile times, investing your retirement funds can be difficult and time consuming. Is your advisor looking at risk and actively managing your retirement? Hiring the MaxOut Savings Advisors team to manage your money or IRA rollover is a great first step toward a successful retirement. MaxOut Savings Advisors is an SEC registered, fee-only investment advisor based in Houston, Texas. Ted Geoca has over twenty years of investment experience managing clients' retirement assets. We invest in stocks, bonds and mutual funds for our clients using a value analysis strategy that we have developed over the last couple decades. **We look at risk as well as return to**

actively manage your investments and maximize your returns through today's changing markets. We use Fidelity Investments as the custodian for our clients' assets. If you would like MaxOut Savings Advisors to manage your retirement investments using our value methodology, I would be happy to meet with you. To schedule an appointment please give us a call at 713-627-0400 or email me at ted@maxoutsavings.com.

Remember Save Aggressively and Invest Conservatively!

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Remember to catch:

The ***MaxOut Savings Show with Ted Geoca*** on Saturday at 11:00am on KNTH 1070AM!

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